EFFECT OF BANKING SECTOR STABILITY ON ECONOMIC GROWTH IN LOWER-MIDDLE-INCOME ASIAN COUNTRIES

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1. Introduction

Bank stability is a crucial element of the financial system. The global financial crisis of 2007–2009 exposed significant flaws in the banking system. This led to uncertainty about the stability of banking institutions, causing a decrease in trust in the banking system as a whole. A stable and robust banking system is essential for fostering economic growth, as it facilitates efficient financial intermediation and resource allocation. Therefore, the purpose of this research is to identify the effect of Banking Sector Stability (BSS) on Economic Growth (EG) in lower-middle-income Asian countries.

2. Research Methodology

This study conducted a long panel approach as an analytical technique and employed the Pooled Mean Group (PMG), Mean Group (MG), and Dynamic Fixed Effect (DFE) to estimate the significant short-term and long-term relationship between BSS and EG. The sample consisted of 9 lower-middle-income Asian countries, and the sample period was covered from 2009 to 2019.

3. Findings and Discussion

The findings highlighted that, in the long run, there is a significant positive relationship between bank stability and economic growth. However, a negative but significant relationship exists between bank stability and economic growth in the short run.

4. Conclusion and Implications

The results emphasize the need for systematic policies to maintain bank stability to achieve long-term economic growth despite the short-run negative economic consequences of investing in stabilizing the banking sector. They also provide insights for policymakers to develop strategies to strengthen governance-related policies to establish stability in the banking sector.

Keywords: Bank stability, Z score, Economic growth, Lower middle-income Asian countries